



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2017 Biennium

Bill #	SB0123	Title:	Revising the regulatory authority over the Montana state fund
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Primary Sponsor:	Tutvedt, Bruce	Status:	As Introduced
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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$168,280	\$267,784	\$264,112	\$268,074
Other	\$426,304	\$390,976	\$1,311,142	\$341,938
Revenue:				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$1,900	\$1,900	\$1,900	\$1,900
Other	\$426,304	\$390,976	\$1,311,142	\$341,938
Net Impact-General Fund Balance:	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Description of fiscal impact: SB 123 subjects the State Fund to provisions in Title 33 that are applicable to workers' compensation insurers, provides the State Auditor's Office (SAO) regulatory oversight of the State Fund, and requires the SAO to issue a certificate of authority.

FISCAL ANALYSIS

Assumptions:

State Auditor's Office

1. The bill requires that the SAO conduct financial and market conduct examinations and actuarially review annual Montana State Fund submissions. Two full-time FTE will be needed to comply with SB 123.
2. The SAO will require two FTE, one attorney band 7 hired January 2016, and one claims examiner band 6 hired July 2016. Salaries and benefits for the attorney will be \$47,140 in FY 2016 (1/2 year) and \$94,280 in FY 2017. Salaries and benefits for the claims examiner will be \$60,824 in FY 2017.

3. Costs for new employees are: computers (\$1,275 each in FY 2016 and FY 2017), desks, miscellaneous supplies, and dues (\$2,185 in FY 2016 and \$2,385 in FY 2017), phone and computer connections (\$180 per month each for a total of \$1,080 in FY 2016 and \$4,320 in FY 2017), and travel and training (\$2,500 in FY 2016 and \$4,700 in FY 2017).
4. Current Market Conduct employees will need specialized training and related travel of \$14,100 in FY 2016 (\$4,700 each for three employees).
5. The SAO will contract to complete a market conduct exam every three to five years beginning with FY 2018 at a cost of \$700,000 for the contract (4,375 hours at \$160 per hour) and \$68,012 for contractor travel to Helena (\$2,429 per trip at 28 trips) for a total cost of \$768,012.
6. The SAO will conduct a financial examination every three years beginning in FY 2018 at a cost of \$96,000 for actuarial services (320 hours at \$300 per hour), \$14,400 for IT services (72 hours at \$200 per hour), and \$80,000 for financial services (500 hours at \$160 per hour), plus contractor travel of \$15,000 for a total of \$205,400.
7. The SAO will contract for an actuarial review of Montana State Fund rate filings for an annual cost of \$100,000 (400 hours at \$250 per hour).
8. The SAO charges an annual fee of \$1,900 for application and renewing a certificate of authority. In addition, 33-1-413, MCA requires examination costs to be reimbursed by the company being examined. This will provide revenue of \$1,900 each year and \$975,312 in FY 2018 (\$1,900 annual fee plus \$768,012 market conduct examination plus \$205,400 financial examination).
9. There is a 1.5% inflationary factor applied to FY 2018 and FY 2019 costs.

Montana State Fund

10. Montana State Fund (MSF) will continue to serve as the guaranteed market.
11. MSF may not be dissolved except as an action of the legislature.
12. The Governor will continue to appoint members of the Board of Directors – subject to confirmation by the Senate.

One-time Conversion Costs

13. MSF will transition to a financial reporting year of January 1 to December 31 effective January 1, 2016.
 - a. The first annual statement to be filed with the SAO will be due March 1, 2017 for the 2016 calendar year.
 - b. Cost to convert current budget system to calendar year basis is \$35,000
 - c. Consulting services to assist MSF in calendar conversion is estimated to be \$65,000 over a 2-year period; \$30,000 for FY 2016 and \$35,000 for FY 2017. The estimate is based on \$75 per hour for approximately 867 hours.
 - d. MSF, SAO, the Department of Administration, and the Board of Investments will coordinate a six month (7/1/15 to 12/31/15) financial reporting period to transition into calendar year financial reporting beginning January 1, 2016. The Department of Administration and the Board of Investments will need to provide additional data on MSF investments and other transactions for quarterly and annual reporting to the SAO.
14. Increased cost for consulting actuary services to produce rate filing exhibits required in MSF's rate filing to SAO are estimated to be \$37,500.
15. MSF will align classification code usage with the National Council on Compensation Insurance's (NCCI) classification code usage. This affects an estimated 3,200 policies and will require internal resources and temporary staff costing an estimated \$44,744 one-time cost that will be split equally in FY 2016 and FY 2017.
16. Producer licenses and professional education costs are \$25,350 in FY 2016 for initial licensing requirements. Producer licenses are \$389 for training and materials and \$118 to test and fingerprint for each individual producer. MSF has 50 staff requiring licensing $((\$389 + \$118) \times 50 \text{ staff} = \$25,350)$.

17. Total one-time conversion costs as noted above are \$207,579 and average \$103,797 for FY 2016 and FY 2017.

On-going Costs

18. The continuing certification costs of producer licenses Continuing Professional Education (CPE) is \$9,725 per year in FY 2017 through FY 2019. On-going costs are for producer licenses of \$5,900 (50 staff at \$118 each) and CPE training of \$3,825 for total annual costs of \$9,725.

19. MSF will transition to a financial reporting year of January 1 to December 31 effective January 1, 2016. Incremental costs for additional consulting actuary fees for loss reserve analysis at December 31 are estimated at \$10,000 annually.

20. SAO will issue MSF a 'Certificate of Authority' to conduct the business of insurance in Montana as required under Title 33. The cost for the certification is currently \$1,900 annually.

21. MSF's quarterly and annual electronic filing of financial statements with SAO will cost \$3,500 per year.

22. SAO will complete a market conduct examination of MSF at least once every five years. MSF estimates the initial market conduct examination will occur in FY 2018 and cost \$768,012 (See assumption 5 for breakout).

23. SAO will complete a financial examination of MSF at least once every five years. MSF estimates the initial financial examination will occur in FY 2018 and cost \$205,400 (See assumption 6 for breakout).

24. Should MSF use the NCCI Contracting Classification Premium Adjustment Program (construction credit program 39-71-2211, MCA), this will be \$63,700 in additional costs per year (2,600 applications processed per year by NCCI at \$24.50 each).

25. MSF statutory audit expense will increase. An additional \$46,000 (\$38,333 plus 20% travel / lodging) will be needed to complete the MSF statutory financial statement and annual report audit.

26. MSF will require 2 new positions to manage the increased regulatory requirements.

a. A compliance officer (1.00 FTE all years) to manage and coordinate insurance regulation requirements, including market conduct examinations, financial examinations, and statutory insurance audits. This position will begin July 1, 2015. Total FY 2016 personal services are \$114,731 with a 2% increase each subsequent year.

b. A Regulatory Specialist (0.50 FTE in FY 2016 and 1.00 FTE thereafter) to manage regulation and reporting requirements for underwriting, rating, and policyholder services. This position will begin January 1, 2016. Total FY 2016 personal services are \$43,752 for six months. The full year FY 2017 personal services are \$89,254 with a 2% increase each subsequent year.

27. The proposed legislation will repeal 39-71-2362, MCA, and the Legislative Audit Division will not conduct a rate review. This \$7,500 annual cost that is paid by MSF will be eliminated.

28. MSF and SAO will work through a plan to implement this legislation to mitigate cost impacts to MSF's policyholder computer system. At this time, there are no anticipated transitional requirements that will drive costs associated with system changes.

Department of Administration

29. The Department of Administration - State Financial Services Division does not anticipate a fiscal impact at this time. The changes as discussed below would be made with current staff. There is a risk that other projects timelines may be impacted, including upgrades to the SABHRS Financial system.

30. There is no fiscal impact to the Health Care & Benefits Division's Workers' Compensation Management Bureau from SB 123.

31. Per 17-1-102, there is one and only one state accounting system (SABHRS Financial) that all state agencies are required to use. Montana State Fund will still be required to continue to use the state accounting system and all applicable accounting policies.

32. Per 17-1-102(4), all state agencies are required to input all necessary transactions to the state accounting system before the accounts are closed at the end of the fiscal year in accordance with generally accepted accounting principles (GAAP). Montana State Fund will need to have all necessary transactions recorded

prior to closing processes being run regarding their calendar year reporting period established in Section 1 of this bill.

33. As required by MCA 17-2-110, the Department of Administration – State Accounting Bureau prepares the state’s comprehensive annual financial report (CAFR). After passage of this bill, subsequent Montana State Fund information in the state’s CAFR will be reported with a reporting period of December 31, as appropriate per GAAP. Additional and continued footnote disclosures will be required in the state’s CAFR detailing the change in reporting periods.
34. Montana State Fund will need to continue to provide State Accounting Bureau with all information requested regarding Montana State Fund, including information related to both “old fund” and “new fund” financial account balances. For example, information requested for CAFR disclosures purposes.
35. Per MCA 17-2-102(4), numerous changes will need to be made to the state’s accounting system (SABHRS Financials) to ensure that Montana State Fund’s fiscal records are closed in accordance with generally accepted accounting principles as of December 31. SABHRS Financials estimates it would take 1,500-2,000 hours to design, code, test, and implement the following changes:
 - change system configuration to accommodate a fiscal year equal to a calendar year;
 - modify daily and monthly batch processes to process Montana State Fund transactions and generate reports;
 - modify fiscal year end processes and procedures to account for two fiscal year end closings;
 - modify existing reporting tools, queries and reports to accommodate multiple fiscal years; and
 - modify the CAFR process to incorporate multiple fiscal years.
36. SABHRS Financials will be in the middle of an upgrade and resources could be limited during this time frame.

Legislative Branch

37. Sections 19 and 21 of SB 123 remove the statutory requirements of the legislative auditor to review Montana State Fund’s rates, claims reservation process, and actuary report.
38. The need for a specialist to conduct these reviews becomes a professional determination by the Legislative Audit Division in context of conducting the annual audit. If determined necessary, the resulting professional services become contracted services costs within the Legislative Audit Division’s existing operating budget.
39. Section 20 of this bill removes the requirement for the Montana State Fund to submit the approved annual budget for review to the legislative fiscal analyst.

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<u>Fiscal Impact: State Auditor's Office</u>				
FTE	0.50	2.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services	\$47,140	\$155,104	\$157,431	\$159,792
Operating Expenses	\$121,140	\$112,680	\$106,681	\$108,282
TOTAL Expenditures	\$168,280	\$267,784	\$264,112	\$268,074
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$168,280	\$267,784	\$264,112	\$268,074
TOTAL Funding of Exp.	\$168,280	\$267,784	\$264,112	\$268,074
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	\$1,900	\$1,900	\$1,900	\$1,900
TOTAL Revenues	\$1,900	\$1,900	\$1,900	\$1,900
<u>Fiscal Impact: Montana State Fund</u>				
FTE	1.50	2.00	2.00	2.00
<u>Expenditures:</u>				
Personal Services	\$158,482	\$206,279	\$210,405	\$214,613
Operating Expenses	\$267,822	\$184,697	\$1,100,737	\$127,325
TOTAL Expenditures	\$426,304	\$390,976	\$1,311,142	\$341,938
<u>Funding of Expenditures:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Proprietary (06)	\$426,304	\$390,976	\$1,311,142	\$341,938
TOTAL Funding of Exp.	\$426,304	\$390,976	\$1,311,142	\$341,938
<u>Revenues:</u>				
General Fund (01)	\$0	\$0	\$0	\$0
Proprietary (06)	\$426,304	\$390,976	\$1,311,142	\$341,938
TOTAL Revenues	\$426,304	\$390,976	\$1,311,142	\$341,938

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)	(\$166,380)	(\$265,884)	(\$262,212)	(\$266,174)
Proprietary (06)	\$0	\$0	\$0	\$0

Sponsor's Initials

Date

Budget Director's Initials

Date